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**QUARTERLY REPORT
to the
COUNCIL ON FOREIGN ECONOMIC POLICY**

**SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS**

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 31 MARCH 1960

Principal Developments

1. During the first quarter of 1960 the Sino-Soviet Bloc demonstrated unequivocally that its economic assistance program in underdeveloped countries of the Free World was to continue its vigorous role in Bloc foreign policy. A total of \$563 million in new credits and grants, all nonmilitary, was the largest amount extended during a single quarter since the beginning of the program. Sino-Soviet Bloc aid to underdeveloped countries of the Free World now amounts to \$3.8 billion, more than 80 percent of which is economic assistance.
2. The economic offensive of the Bloc in underdeveloped countries continues to be directed toward consolidating past successes as well as seizing new opportunities. By providing an additional sum of \$187 million for the completion of the Aswan Dam in Egypt the USSR indicated its eagerness to preserve its monopoly in this high-prestige project. Although Indonesia canceled the \$30 million developmental credit extended by Communist China in 1959, acceptance of a Soviet credit for \$250 million insures an important role for the Bloc in Indonesia's economic development. Inasmuch as only one-fourth of the \$118 million in previous Soviet credits to Indonesia has been utilized, however, the new credit is not likely to be drawn upon for some time. Similarly, Communist China granted Nepal an additional sum of \$21 million, although only one-third of a 1956 Chinese Communist grant of \$13 million has been utilized.
3. The flexibility of the Bloc in pressing its economic offensive into other key areas was again demonstrated during the quarter. In Guinea, Bloc technical and administrative personnel now occupy key positions in development planning, finance, transportation, and communications. A second Soviet wheat grant has been extended to Afghanistan to help meet local costs of Soviet-assisted projects. Pushing its economic offensive

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close to the shores of the US, the USSR has adroitly exploited Cuba's uncertain international position by means of a long-term trade pact and a developmental aid agreement and has established economic ties that may persist for many years. Negotiations underway late in the first quarter indicated that the USSR will be joined by the Satellites in a coordinated program of expanded economic and political relations with Cuba. Communist China also is increasing its activities in Cuba, but its role is largely an independent one.

Soviet-Cuban Trade and Credit Agreements

4. While in Havana to open the Soviet exposition in February, Soviet First Deputy Premier Mikoyan signed with Cuban Premier Castro two agreements that reflect a significant departure from Cuba's traditional foreign policy. Under the first, a bilateral trade agreement that covers the period 1960-64, the USSR will purchase at world market prices 1 million tons of sugar annually. This quantity compares with average annual Soviet purchases of 300, 000 tons for the years 1955-59. The Soviet share of Cuba's total sugar sales will therefore increase from 6 percent in the period 1955-59 to about 20 percent for the period covered by the agreement. Because the agreement contains a Soviet commitment not to re-export the sugar to Cuba's traditional customers, the increased imports can be presumed to reflect Soviet plans to increase domestic sugar consumption. The USSR will pay for the sugar largely (80 percent) in commodities and only partially (20 percent) in convertible currency. Previously all foreign purchases of Cuban sugar have been on convertible currency account. Soviet commodity exports under the agreement will average \$55 million annually at present sugar prices, or approximately 7 to 8 percent of Cuba's total imports.

5. Even though the Soviet trade agreement almost certainly will result in net benefits to Cuba, the commercial accord by itself cannot directly increase Cuba's total sugar exports, because these exports are controlled by the International Sugar Agreement. In fact, on 30 March the International Sugar Council rejected, at least temporarily, a Cuban

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application to have its 1-million-ton annual export to the USSR placed outside the Agreement. An immediate advantage of the Soviet trade accord could be the indirect benefit that will accrue to Cuba if Soviet sugar purchases sufficiently increase world demand to raise the world market price of sugar. Furthermore, the substantial increase in sales to the USSR that is called for in the new agreement may result in an upward revision of the world sugar export quota, in which Cuba presumably would retain its present percentage share of a larger total world quota. Against these indirect benefits of the Soviet agreement, Cuba faces the disadvantage of exporting sugar against commodities instead of convertible currency. Only 16 percent of Cuba's total sugar exports, however, are to be exported to the USSR in exchange for Soviet commodities. Moreover, Cuba may choose from a list of raw materials and industrial goods that appears sufficiently long and varied to enable Cuba to find adequate substitutes for essential commodities now imported from the Free World.

6. At the same time that the trade agreement was concluded, the USSR extended to Cuba a \$100 million credit for economic development, payable in 12 years with interest at 2.5 percent per year. This line of credit, the first extended to Cuba by a Bloc country, is to be used for the establishment of new industrial enterprises. A steel mill and the enlargement of a petroleum refinery probably will be the first major projects undertaken. Extensive Soviet technical assistance is called for under the terms of the credit in what will be the first large-scale influx of Bloc technicians into the Western Hemisphere. The credit is to be utilized during the period 1961-65, and Cuban payments in goods or convertible currency are to begin 1 year after the termination of deliveries of equipment or as projects are completed. The dates of these payments are expected to fall in the latter part of the 1961-65 period, and most of them will occur after 1964, when the trade agreement expires. Continued economic relations between Cuba and the USSR will therefore be insured throughout the period 1966-75.

7. Soviet actions in concluding the recent economic accords with Cuba are more than a reward for Castro's anti-US policies. Heavily tinged with political opportunism, these pacts demonstrate to other Latin American peoples the willingness of the USSR to assist tangibly those who make a successful start at divesting themselves of their ties with Free World capital. The Kremlin clearly is looking beyond Cuba.

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